Georgia State University
University Plaza • Atlanta, Georgia 30303

Economic Forecasting Center
College of Business Administration
404/651-3282

MONTHLY PROJECTIONS
December 1987

Dr. Donald Ratajczak, Director
For Release: January 12, 1988

ITS ALL IN THE TIMING

According to conventional wisdom, October's stock market crash frightened the consumer. Weak consumer sales at Christmas and early in 1988 will be quickly recognized by manufacturers, who will curtail previously robust production programs to maintain tight inventories. Thus, the economy will slow its rate of growth early in 1988 but will find renewed vigor as the increased competitiveness of American industries caused by the declining dollar leads to sufficient foreign orders to offset any domestic sluggishness. Because manufacturing utilization rates are high, investment activity will barely slow, and the stock market trauma will be a distant memory to consumers toward the second half of 1988.

Although such a scenario certainly is possible, the presumed timing of consumer response is unusually rapid for such a substantial dip in stock values. Moreover, the substantial rally in stock prices preceding the slump was still working some of its magic upon consumer spending during the Christmas season. This explains why the consumer responded to the promotional efforts of retailers and automobile dealers. While Christmas was not a barn-burner, real sales appear to have been up slightly and most retailers approached their revised selling plans. Orders for the spring selling season will be cautious, especially in women's apparel. In addition, automobile manufacturers already are extending their Christmas closings and placing some other assembly plants on indefinite layoffs to remove inventory imbalances. However, the manufacturer continues to experience a fat order book, especially from foreign customers and, except for the automobile industry, there has been little attempt to scale back operations.

Moreover, an unusually mild fall has led to higher levels of construction activity than would have been predicted by economic conditions alone. Despite economic indicators that would suggest a substantial slowing in private nonresidential construction, the mild weather led to a 4.5% November surge in that com-

ponent of expenditures. Housing activity also was unusually robust. When winter finally arrives in January, expenditures on utilities will spurt. In other words, several unusual and temporary events are generating greater economic activity than can be sustained.

Rather than realizing that the economic response to stock market trauma will be lagged, many producers probably will assume from this performance that the stock market crash had little effect. As a result, there may be little attempt to whittle away the rapidly rising inventories at the manufacturing level. Indeed, manufacturing inventory expansion at 0.8% per month, the rate that occurred in November, could be sustained if industrial activity continues to grow 5% per year after inflation. However, if there is a lagged consumer response to the stock market decline, as I anticipate, domestic sales will begin weakening notably in the spring. Inventory imbalances should quickly develop into the summer months, requiring a production correction by the fall. In short, the correct outlook for 1988 depends upon the appropriate timing of production decisions. More rapid economic expansion than expected early in the year, especially if it is concentrated in inventory investments, will set up significant economic weakness for later on.

Almost unnoticed during this period has been a dramatic widening in the spread between yields on commercial paper and on federal funds. Partially as a result of the substantial inventory buildup by manufacturers, and also from the buy-back of equity that has depleted cash positions in many corporations, yields on commercial paper have widened to almost 100 basis points beyond yields on federal funds. Yeilds on certificates of deposit have increased commensurately, as corporate treasurers have been borrowers rather than lenders during this stock repurchase period. Indeed, if everyone was not so convinced that interest rates were about to fall, the high CD yields late in December would have exerted substantial pressure to raise the prime rate.

Fortunately, the attempt by central banks early in January to disrupt the speculation in currency markets has met with considerable success. Until the massive intervention during January's first week, currency speculators almost always were winning by betting against the dollar. Under such circumstances, a significant short position against the dollar had developed. On January 4, however, all the major central banks moved decisively to support the dollar. When they again entered on January 5, even after the dollar had rallied substantially, many currency traders were forced to unwind their short positions. This has definitely improved near term prospects for the dollar's value and has reduced the need by the Federal Reserve to prop up interest rates domestically in an effort to support the dollar. Hopefully, greater Federal Reserve accommodation will now be forthcoming, causing a decrease in some of the sensitive short-term interest rates. If so, the commercial paper rate soon should settle back toward the federal funds rate, permitting the prime rate to remain at current levels.

Despite the success of the central bank intervention against currency speculators, the dollar's longer-term trend downward remains intact. Although trade deficits almost certainly will narrow from their record October levels, they will remain uncomfortably high throughout 1988. Indeed, the intervention is expected to be only successful for a few short months. By the spring, the dollar should be under renewed attack by foreign investors. Nevertheless, the dollar probably will reach fundamentally firm ground before the end of 1988, opening opportunities for increased foreign investment into the United States.

Although the return of normal winter weather has firmed up prices of energy materials, an imbalance between production and demand appears to remain in the Persian Gulf. After the heating season ends sometime in February, both oil and natural gas prices should again trend downward. At the present time, they are firming significantly. This is especially true of natural gas, where regulations concerning take-or-pay contracts appear to be diminishing the amount of natural gas currently being supplied on the spot market. Nevertheless, a significant excess production supply of natural gas appears to remain. Therefore, no further dramatic increases in those prices is now anticipated.

If energy material prices weaken again by February and March, as anticipated, inflationary pressures during the first half of 1988 should be relatively modest. Indeed, meat supplies also may be ample to excessive, causing stable to slightly declining grocery store prices into the spring. While underlying inflation may be gradually intensifying to the 4.5% range, measured inflation may actually fall to the 3.5% range. Of course, much higher inflation will then materialize in 1988's second half.

On the whole, forecasting 1988 not only depends upon timing but also upon properly weighting the positive or negative contributions of conflicting forces in most markets. Net exports will be contributing to economic growth while consumer activity will be much more restrained. Following increased construction activity as a result of mild weather, pressures for reduced construction expenditures will intensify. On the other hand, strong export growth could generate enough capacity pressures to sustain modest growth in capital spending.

The cross currents in inflation are represented by the impact of a falling dollar upon competing import and export commodities on the one hand, and the moderation of energy and food prices on the other. However, these conflicting forces will not remain in conflict during the latter half of 1988. At that time, higher inflationary pressures almost certainly will develop.

The pattern of weakening economic activity and strengthening inflationary pressures during the second half of 1988 also raises conflicts in the financial markets. Interest rates could move in either direction, but probably not very much. At the present time, it appears that the economic slowing will be more pronounced than the acceleration of inflation. As a result, a modest decline in interest rates currently is anticipated.

Finally, not enough investors appear to have learned their lesson about equity values. Already, investors are again talking about merger and acquisition premiums. Pretty soon, they will again be comparing the yields provided by equities in Japan versus the United States. Clearly, some of that yield differential is justified by the differences in prevailing interest rates. Nevertheless, there is some tendency for Japanese investors to accept lower near-term performance than their American counterparts. This could tend to increase some stock prices in the United States. When the economy appears stronger than had been anticipated early in 1988, the stock market may once again move percentage points above values that would be justified by prevailing fundamentals. If economic sluggishness then reappears later in the year, as anticipated, another return to earth is likely. While we did not forecast the rise and fall of the stock market in 1987, our analysis of virtually no increase in equity values by the end of 1987 proved to be very close to the mark. Somewhat better equity performance can be expected in 1988, but the path appears to include another roller coaster ride.

Quarterly Profile of GNP

	1987-3	1987-4	1988-1	1988-2	1988-3	1988-4	1987 Annual	1988 Annual
Real:	4.3	3.2	1.1	1.5	1.3	-0.7	2.8	2.0
Price:	2.8	3.9	3.3	3.4	4.0	4.3	3.0	3.5
Nominal:	7.3	7.0	4.4	5.0	5.4	3.6	6.0	5.6

Monthly Statistical Highlights for December 1987

Payroll employment +325,000; index of hours worked -0.2% household employment 240,000; civilian unemployment rate 5.8%; personal income +0.7%; savings rate +3.8%; personal consumption +0.7%; retail sales +1.2%; auto sales 10.4 million units; housing starts -5.3%; housing permits +0.1%; construction expenditures -0.1%; business inventories +0.6%; orders for durable goods +0.4%; orders for nondefense capital goods +0.5%; industrial production +0.2%; CPI +0.2%; PPI +0.3%; consumption deflator +0.2%; leading indicators -0.4%; real GNP(AR) +3.8%; M1(AR) -5.1%; M2(AR) +3.0%.

Monthly Statistical Highlights for January 1988

Payroll employment +202,000; index of hours worked +0.2%; household employment +224,000; civilian unemployment rate 5.8%; personal income +0.2%; savings rate +4.7%; personal consumption +0.4; retail sales -0.2%; auto sales 10.0 million units; housing starts -5.5%; housing permits -5.3%; construction expenditures -1.9%; business inventories +0.5%; orders for durable goods -1.9%; orders for nondefense capital goods -2.9%; industrial production -0.1%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%: leading indicators +0.6%; real GNP(AR) -0.6%; M1(AR) +5.4%; M2(AR) +7.1%.

Commentary

Employment - Payroll employment was surprisingly strong in December as the workweek narrowed while more people were put on payrolls. In fact, the hours worked index actually declined slightly. The unusual surge in construction activity in November as a result of favorable weather was extended into December. Declines in retail employment along with some weakness in financial service employment was observed. The surge in the hourly earnings index during November appears to have been an aberration that does not reflect a reacceleration of wage inflation at this time. This is confirmed by a slight decline in this measure for December.

Initial unemployment claims have increased significantly, with the insured unemployment rate rising to 2.2% during the survey week. Normally, this would suggest an increase in the civilian unemployment rate, but the relatively sluggish growth of the labor force over the past year resulted in a drop of that rate to 5.8%.

Personal Income and Outlays - Personal income was significantly depressed by a $40 billion swing in farm income as a result of subsidy disbursement. A slight rebound in farm income is expected for December, but not to the October levels. In addition, a $5 billion increase in interest income probably reflected rising interest rates

prior to the stock market crash and should not be reflected in growing incomes in December. In addition, wage and salary gains are expected to be much less in December than they were in November. There is very little sign of increased desired savings at the present time, however, the strong growth in outlays appears to be the result of incentives provided by automobile dealers and general merchandisers. In addition, the exceptionally slow growth in service expenditures during November was caused by especially sluggish stock market transactions accompanied by an unusually mild weather pattern. A more normal weather pattern in December should cause more rapid growth in service expenditures.

Because of upward revisions in estimated expenditures for durable goods, personal consumption spending is higher than anticipated in our post-crash November forecast. We do not believe that our original estimates were overreactions. Rather, consumers still are willing to respond to incentives, but are expected to leave the market when the incentives diminish. Therefore, sluggish consumer activity should be more prevalent in the first and second quarters.

There also appears to be a discrepancy between retail sales by auto dealers and the auto units sold. While this discrepancy could be the result of reduced van and truck sales, all the evidence suggests a contrary pattern. In addition, durable expenditures no longer are tracking auto sales. This suggests that something is wrong with the auto sales estimates, which will now need to be revised upward.

Construction - Weather appears to be the major factor in the surprisingly strong construction estimates for November. Some estimates indicate that the temperature was four degrees above normal and November was especially dry. These combined influences certainly enticed increased activity. While housing starts zoomed upward, especially for multiple units, housing permits actually declined. Typically, multiple permits and starts are virtually coincident indicators. More normal weather in December should cause a decline in housing activity, especially multi-family units. Severe winter weather in January probably will cause a significant dip in housing activity.

The weather which influenced housing starts also appears to have altered construction expenditures. Nonresidential activity was surprisingly strong, although orders also remained surprisingly strong. However, orders in November decreased 8%. Nevertheless, orders for nonresidential construction remained 3% above previous year levels. Apparently, financing was amply available for developers, despite the reduced incentives provided by the 1986 tax act and the apparent overbuilding in almost all metropolitan areas. Public construction also benefitted from the favorable weather in November and should now fade off during the winter months.

The construction deflator zoomed by nearly 1% in November. This could be the result of reignited inflationary pressures in the housing market. However, a more likely explanation is a shift in the composition of construction activity toward expenditures which command higher deflators. If so, the more normal activity that should result when more normal weather could actually generate a slight decrease in the construction price index. Otherwise, an upward revision in our GNP estimates for the construction components would be required.

Business Activity - The most surprising part of business activity has been the surge in manufacturing inventories. In November, manufacturing inventories increased 0.8%. Some of this gain was the result of unanticipated automobile

inventories, which now will be reduced as a result of sales incentives and production curtailments in December and January. However, an increased desire to hold manufacturing inventories also appears to have developed. A long list of commodities in short supply surfaced in the latest purchasing managers survey. Strong inventory investment probably can be expected in the manufacturing sector through the first half of 1988 until declining domestic demand reduces price pressures. Then, a typical inventory cycle could well develop in the latter part of the year.

Durable goods orders eased slightly in November as a result of sharp declines in orders for computers and office equipment. Some analysts have interpreted this decline as early signs of a significant reduction in investment activity. It may only indicate that the new products provided by some of the large computer companies are not exciting a significant amount of interest. Nevertheless, the traditional falloff in durable goods activity at the beginning of the year is expected to restrain capital spending programs in the first quarter of 1988.

Industrial production continues to grow sharply through November. A further increase in December appears assured as a result of further inventory building and a rebound in utility activity. However, a slump in automobile production in January should restrain industrial production momentarily. Then, further industrial activity is anticipated until an inventory correction begins in the latter part of 1988.

Prices - The CPI report for November was a slight surprise, as a dramatic increase in vegetable prices was absent from consumer spending. The reason for this discrepancy is still unclear. In December, vegetable prices declined, as expected from the PPI estimates of that month. Moderate inflation should continue through the first part of 1988 as oil prices begin settling to reflect increased supply. Despite a momentary rebound in oil prices, significant declines are anticipated as the harsh winter weather subsides. Prices then are expected to reaccelerate in the second half of the year, especially as oil prices once again should rebound at that time.

Miscellaneous - Although the stock market rallied strongly in the second half of December, stock prices for the month average about the same as November. More significantly, initial unemployment claims will be subtracting 0.3 percentage points from the leading indicators. With the workweek also shortening, the leading indicators could fall significantly in December following the 1.7% drop in November. However, a third consecutive decline does not currently appear likely. Detracting from such a possibility is a significant further rebound in stock market prices.

Most of the recent changes in trade balances have been the result of seasonal forces. October is a substantial month for importing manufactured goods, while November is a relatively lackluster month. Therefore, significant improvement in November should be anticipated. Nevertheless, export activity is not growing as robustly as earlier in the year, except in the agricultural sector, while imports continue to grow. While the trade balances should improve in 1988, the pattern of improvement will continue to be erractic and should not be as dramatic as anticipated in the November forecast. The major mitigating force against further improvement is the relatively strong consumer outlays for the first half of the year.

Financial Markets

The liquidity that the Federal Reserve poured into the economy in late October and early November has largely been withdrawn. Although further growth is developing in the monetary base, the rate of increase has definitely slowed. Apparently, the Federal Reserve is pursuing a federal funds target of just under 7%. However, the inventory buildup in manufacturing along with the stock buy-back program has significantly reduced the near-term liquidity of corporate America. This has resulted in higher commercial paper rates and higher CD rates. Indeed, if concern about economic weakness were not so widespread, the CD rate prevailing in December would have led to an increase in the prime rate. Short-term interest rates are expected to ease in the months ahead, as inventory investment will remain high but should not intensify from current levels. In addition, much of the stock buy-back activity is diminishing.

According to flow of fund analysis, the corporate sector is significantly increasing its borrowings during the first half of the year. Both fixed investment and inventory investment activity will be stronger than the growth of internally generated cash. As a result, increased corporate borrowing should be anticipated, at least until the inventory correction begins later in the year.

Of course, the household sector should be significantly adding to its presence in credit markets as mortgage activity should ease while savings rates rise. In the second half of the year, however, a rebound is expected in the housing market. Government borrowings are expected to remain strong through most of 1988 with no discernable trend. As a result, foreign investor sentiment will be a major factor in dictating interest rate movements through much of 1988. Now that the dollar has rallied against some of the major currencies, some foreign investors may be more willing to enter dollar asset commitments. This could provide a slight decrease in interest rate pressures. However, most investors probably still believe that the long-term direction of the dollar is downward. Therefore, the recent dollar rally will not entice that many foreign investors into our markets. Only later in the year, when the trade deficits clearly are eroding, will foreign investors begin to believe that the bottom of the dollar's value against major currencies has been reached. At that point, significant increases in foreign lending could result in a modest dip in interest rates.

Equity Markets - Following the stock market collapse in October, our analysis suggests that stock market values are appropriate for current economic conditions. As interest rates are expected to remain relatively stable and as economic growth is expected to gradually slow, these fundamentals should not significantly change. A slight positive tilt in stock market prices is possible in the first half of 1988 because of stronger economic conditions than some analysts may have assumed. In the latter half of the year, however, an inventory correction could lead to reduced economic activity and declining profitability. While interest rates also may come down, that combination would not be sufficient to prevent another decline in stock market values. For the year as a whole, stock market prices probably will show little direction. There is a distinct possibility that a repeat of 1987 could materialize. Such a repeat would combine significant stock market advances early in the year with a stronger economy and somewhat higher interest rates than is currently anticipated. Any further rise in interest rates later in the year then would trigger another abrupt collapse toward fundamentals, once again restoring equity values near current levels.

Under such scenarios, investors could be encouraged to buy some equity positions for the short-term. However, if interest rates begin rising more sharply than currently contemplated, withdrawal from the equity markets once again would be encouraged.

Capital goods industries in the United States will do surprisingly well as they should be increasing their share of domestic sales even as the total domestic pie increases only slightly. Of course, export-oriented issues also will be doing well. As there is not expected to be significant direction in interest rates, interest-sensitive stocks will generally perform in line with the market, although utilities probably will outperform the market. Greater concern will develop toward service-oriented companies, except for computer software issues. On the whole, investing in 1988 should not be terribly treacherous for those who enter the markets at current levels. If a speculative fling developes, as it did in 1987, investors should be quicker to withdraw to the sidelines to protect their gains. On the whole, the Dow Jones probably will end 1988 slightly over 2100, even if it takes a trip up toward the 2500 level in the interim. A significant decline in the Dow is not anticipated for this year unless prices have already climbed to that 2500 vicinity.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	102126	102126	120.6	120.6	112727	112727	6.0	6.0	173.2	173.2
August	102278	102275	121.2	121.2	113081	113081	6.0	6.0	174.1	174.1
September	102410	102434	120.2	120.4	112772	112772	5.9	5.9	174.7	174.6
October	102685	102970	121.5	121.9	113456	113187	5.9	6.0	175.1	174.8
November	102780	103244	121.7	122.2	113516	113500	5.8	5.9	175.5	175.7
December	102873	103389*	121.8	122.4*	113577	113669*	5.8	5.9*	175.9	176.0*
January 1988	102986	103591	121.8	122.6	113753	113893	5.8	5.8	176.3	176.4
February	103081	103719	121.7	122.7	113935	114041	5.8	5.8	176.8	177.0
March	103175	103848	121.7	122.8	114117	114231	5.8	5.7	177.5	177.6
April	103346	103888	121.9	122.9	114298	114385	5.8	5.7	178.0	178.2
May	103502	104105	122.1	123.0	114439	114521	5.8	5.7	178.4	178.7
June	103658	104318	122.4	123.2	114580	114746	5.9	5.6	178.9	179.2
July	103796	104532	122.5	123.4	114723	114953	5.9	5.6	179.5	179.8
August	103905	104661	122.6	123.5	114840	115133	5.9	5.6	180.2	180.4
September	104044	104746	122.7	123.6	114957	115229	6.0	5.6	180.8	181.0
October	104207	104817	122.8	123.6	115118	115330	5.9	5.7	181.3	181.5
November	104293	104830	122.8	123.5	115325	115376	5.9	5.8	181.7	182.1
December	104286	104798	122.7	123.4	115223	115341	6.0	6.0	182.2	182.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	3.737	3.739	2.210	2.210	107.0	100.1	3.176	3.178	3.069	3.078
August	3.758	3.761	2.229	2.229	70.2	70.6	3.192	3.195	3.122	3.124
September	3.784	3.783	2.242	2.240	106.6	95.7	3.213	3.213	3.106	3.117
October	3.802	3.851	2.256	2.257	124.3	163.8	3.229	3.276	3.105	3.112
November	3.818	3.834	2.265	2.273	121.8	125.2	3.243	3.254	3.121	3.129
December	3.835	3.860*	2.273	2.283*	121.4	125.9*	3.258	3.276*	3.136	3.150*
January 1988	3.839	3.868	2.282	2.293	140.7	156.4	3.291	3.318	3.150	3.162
February	3.859	3.887	2.292	2.305	147.0	165.2	3.314	3.339	3.167	3.174
March	3.878	3.906	2.303	2.316	144.9	168.9	3.329	3.354	3.184	3.185
April	3.891	3.925	2.312	2.328	143.6	170.0	3.340	3.370	3.196	3.200
May	3.903	3.942	2.323	2.337	134.9	173.0	3.346	3.387	3.211	3.214
June	3.915	3.961	2.333	2.349	124.1	173.3	3.353	3.401	3.229	3.228
July	3.932	3.979	2.344	2.362	123.6	180.1	3.366	3.414	3.242	3.234
August	3.949	3.998	2.355	2.374	122.2	165.1	3.376	3.428	3.254	3.263
September	3.965	4.015	2.366	2.385	104.6	170.0	3.386	3.441	3.282	3.271
October	3.978	4.030	2.375	2.394	121.3	168.6	3.398	3.452	3.277	3.283
November	3.988	4.044	2.384	2.401	106.5	161.3	3.403	3.462	3.297	3.301
December	3.999	4.059	2.393	2.409	89.3	155.2	3.409	3.474	3.320	3.319

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	2974.5	2983.6	417.1	424.6	984.6	984.6	1572.7	1574.4	2501.9	2509.4
August	3026.3	3028.8	447.4	447.8	991.9	990.1	1587.0	1591.0	2534.8	2536.6
September	3010.2	3021.5	433.3	438.0	987.7	984.4	1589.3	1599.0	2514.3	2516.2
October	3008.8	3015.5	415.1	413.4	992.3	984.1	1601.4	1618.0	2505.2	2498.6
November	3024.4	3031.9	413.6	423.6	997.0	983.7	1613.8	1624.6	2505.7	2505.1*
December	3039.1	3052.8*	414.5	433.2*	1000.8	987.9*	1623.8	1631.7*	2511.7	2517.6
January 1988	3052.6	3064.0	418.5	429.7	1002.6	990.4	1631.5	1643.9	2514.5	2518.5
February	3068.9	3075.8	422.2	425.8	1004.6	995.8	1642.1	1654.2	2521.7	2522.1
March	3085.5	3086.7	426.0	428.0	1006.7	999.2	1652.8	1659.5	2527.0	2525.1
April	3097.4	3101.1	425.3	431.6	1010.6	1000.9	1661.5	1668.6	2528.5	2529.4
May	3111.6	3114.7	423.7	433.4	1016.2	1004.4	1671.7	1676.9	2531.8	2533.5
June	3129.2	3128.1	425.7	434.4	1021.5	1008.9	1682.0	1684.8	2537.9	2537.5
July	3142.0	3133.9	425.8	427.2	1024.8	1013.4	1691.4	1693.3	2540.0	2532.3
August	3152.9	3162.4	423.9	440.9	1027.7	1018.9	1701.3	1702.6	2540.6	2547.1
September	3180.5	3170.1	438.2	435.4	1030.8	1023.3	1711.5	1711.4	2554.6	2544.6
October	3174.9	3182.1	416.9	431.2	1035.4	1030.0	1722.6	1720.9	2539.9	2542.7
November	3194.2	3199.0	421.3	433.8	1040.1	1035.4	1732.8	1729.8	2545.2	2547.1
December	3216.8	3216.7	429.2	436.1	1044.6	1040.2	1743.0	1740.4	2555.0	2552.7

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	127.06	127.06	20.30	20.30	10.5	10.5	77.33	77.33	29.44	29.44
August	129.27	128.93	20.18	20.26	12.4	12.4	77.98	77.79	31.11	30.88
September	128.76	126.79	20.17	20.17	10.1	11.7	77.93	77.08	30.66	29.53
October	127.01	125.66	20.27	19.90	9.3	9.3	78.08	77.25	28.66	28.50
November	126.74	125.86	20.36	20.25	9.0	9.9	78.45	77.26	27.93	28.34
December	128.23	127.43*	20.31	20.36*	9.4	10.4*	78.75	77.50*	29.17	29.57*
January 1988	128.96	127.15	20.25	20.16	9.6	10.0	78.89	77.63	29.79	29.36
February	129.97	127.12	20.20	20.24	9.9	9.6	79.05	78.05	30.72	28.83
March	130.43	127.65	20.19	20.26	10.0	9.7	79.21	78.32	31.03	29.07
April	130.39	128.19	20.15	20.20	9.9	10.0	79.52	78.45	30.72	29.54
May	129.78	128.68	20.14	20.19	9.6	10.1	79.96	78.73	29.68	29.76
June	132.42	129.15	20.20	20.16	10.3	10.2	80.38	79.08	31.84	29.91
July	132.56	128.67	20.17	20.21	10.2	9.6	80.64	79.43	31.75	29.03
August	131.47	130.67	20.10	20.23	9.8	10.5	80.87	79.86	30.50	30.58
September	133.81	130.39	20.09	20.15	10.8	10.1	81.11	80.21	32.61	30.03
October	130.29	130.42	20.15	20.23	8.9	9.4	81.47	80.73	28.67	29.46
November	131.30	131.16	20.25	20.27	9.1	9.6	81.84	81.16	29.21	29.73
December	132.81	131.79	20.34	20.30	9.4	9.7	82.20	81.53	30.27	29.96

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	1.598	1.598	1.143	1.143	1.487	1.487	393.4	398.5	341.1	346.5
August	1.598	1.585	1.111	1.111	1.502	1.502	399.6	402.9	345.6	350.4
September	1.669	1.685	1.168	1.211	1.493	1.502	399.8	410.9	344.7	357.1
October	1.592	1.523	1.106	1.102	1.501	1.463	397.0	410.6	342.2	357.5
November	1.577	1.637	1.093	1.119	1.473	1.453	396.2	419.5	340.7	361.9
December	1.558	1.550*	1.080	1.085*	1.426	1.455*	395.7	415.3*	339.4	358.6*
January 1988	1.486	1.464	1.005	1.021	1.391	1.378	391.0	407.6	334.8	350.8
February	1.431	1.469	0.973	1.038	1.354	1.355	388.3	406.8	331.9	349.2
March	1.418	1.452	0.950	1.024	1.326	1.361	386.9	400.4	330.1	342.5
April	1.420	1.479	0.946	1.036	1.330	1.384	384.9	403.3	327.6	344.1
May	1.439	1.496	0.955	1.033	1.335	1.413	383.1	398.5	325.2	339.1
June	1.456	1.507	0.964	1.042	1.346	1.426	382.1	400.1	323.3	339.4
July	1.483	1.473	0.992	1.027	1.369	1.407	385.2	402.0	325.6	340.1
August	1.492	1.480	1.001	1.029	1.394	1.409	388.3	402.7	328.0	340.1
September	1.498	1.504	1.010	1.036	1.406	1.417	391.7	402.8	330.8	339.9
October	1.519	1.534	1.017	1.053	1.423	1.443	394.8	403.6	332.3	340.0
November	1.528	1.538	1.026	1.047	1.430	1.455	397.5	406.4	333.5	341.8
December	1.536	1.558	1.035	1.055	1.439	1.462	400.2	408.9	334.6	343.0

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	121.7	125.8	73.8	74.6	197.9	198.0
August	124.5	129.6	74.5	73.0	200.6	200.2
September	123.8	127.9	74.8	77.9	201.2	205.1
October	122.4	129.1	74.2	76.7	200.4	204.8
November	121.8	134.9	74.8	77.5	199.6	207.1
December	121.4	131.6*	75.4	76.1*	198.9	207.6*
January 1988	120.6	129.5	75.8	75.6	194.6	202.5
February	119.8	129.8	76.4	76.0	192.1	201.0
March	119.0	128.6	77.1	76.3	190.8	195.5
April	119.3	128.4	77.5	76.9	188.1	198.0
May	119.1	128.6	77.1	77.1	186.9	192.8
June	119.2	129.1	77.3	77.4	185.6	193.6
July	118.8	128.5	77.9	77.5	188.5	196.0
August	118.9	129.2	78.4	77.9	191.0	195.6
September	119.0	129.5	79.0	78.3	193.7	195.0
October	119.3	129.3	79.2	78.6	196.3	195.7
November	119.5	128.6	79.4	79.0	198.6	198.8
December	119.8	128.4	79.4	79.2	201.0	201.3

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	323.3	323.3	109.17	109.17	31.98	31.98	28.10	28.10
August	325.1	325.4	106.62	106.68	29.52	29.54	28.47	28.49
September	324.2	326.7	107.80	109.35	29.15	29.75	29.12	29.71
October	326.6	328.6	106.95	111.09	29.33	30.41	29.16	28.99
November	327.8	331.1*	105.48	110.65	29.25	29.67	29.24	28.36
December	329.3	333.4	103.97	111.09*	28.65	29.82*	28.60	29.04*
January 1988	331.5	335.3	104.46	108.96	28.67	28.96	28.25	28.53
February	332.9	336.6	104.65	108.90	28.43	28.95	28.40	28.50
March	334.6	337.9	105.14	110.46	28.46	29.26	28.52	28.66
April	336.1	339.4	104.87	110.61	28.69	29.28	28.56	28.79
May	338.0	341.0	105.56	111.25	28.73	29.43	28.69	29.04
June	339.5	342.7	105.29	110.46	28.65	29.17	28.83	28.76
July	341.0	344.6	105.16	111.21	28.64	29.26	28.59	28.92
August	342.2	346.1	105.94	111.65	28.73	29.44	28.75	29.18
September	343.4	347.3	106.65	111.13	28.75	29.56	28.73	29.34
October	344.9	348.3	107.13	111.25	28.94	29.50	28.82	29.26
November	345.8	349.0	107.48	110.96	29.06	29.46	28.98	29.20
December	346.8	349.9	107.26	110.85	29.01	29.42	28.80	29.42

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	677.7	677.7	8.91	8.91	130.6	130.6	81.1	81.1
August	678.8	678.8	8.80	8.80	131.0	131.2	81.2	81.4
September	678.3	682.4	9.53	9.52	131.2	130.9	81.2	81.0
October	681.5	687.9	9.26	9.13	131.7	132.0	81.4	81.5
November	684.9	692.0*	9.10	9.16	132.0	132.5	81.4	81.7
December	688.0	696.2	9.15	9.21*	132.1	132.8*	81.3	81.7*
January 1988	691.2	699.7	9.23	9.28	131.8	132.7	81.0	81.4
February	694.3	703.2	9.32	9.35	131.5	133.0	80.7	81.4
March	697.3	706.5	9.40	9.43	131.3	133.3	80.4	81.4
April	700.3	709.6	9.28	9.40	131.3	133.6	80.2	81.5
May	704.1	712.9	9.37	9.42	131.5	133.9	80.2	81.5
June	707.1	716.5	9.50	9.38	131.7	134.3	80.2	81.6
July	709.6	720.5	9.43	9.48	131.9	134.6	80.2	81.6
August	712.3	723.6	9.62	9.53	132.2	134.8	80.3	81.5
September	714.9	727.1	9.38	9.50	132.5	134.7	80.4	81.3
October	717.6	729.9	9.43	9.28	132.0	134.3	79.5	80.9
November	720.5	731.8	9.52	9.42	130.3	134.0	78.3	80.5
December	723.1	733.5	9.60	9.48	128.6	133.5	77.1	80.1

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	341.0	341.0	297.4	297.4	322.6	322.1	117.6	117.6
August	342.7	342.6	297.3	297.4	323.0	323.0	117.8	117.8
September	343.4	343.2	298.2	298.3	324.0	323.3	118.1	118.2
October	344.9	344.5	298.5	297.6	325.0	324.9	118.5	118.7*
November	346.3	345.5	299.4	298.5	325.7	325.4	118.8	119.1
December	347.7	346.2*	300.3	299.4*	326.5	326.1*	119.1	119.3
January 1988	348.6	347.4	300.7	300.2	327.3	326.9	119.6	119.7
February	349.5	348.4	301.1	301.0	328.4	327.6	120.1	120.0
March	350.5	349.1	301.5	300.8	329.5	327.5	120.6	120.3
April	351.8	350.3	302.3	301.7	330.1	328.4	120.9	120.7
May	353.2	351.3	303.2	302.5	330.6	329.5	121.2	121.0
June	354.7	352.5	304.2	303.4	331.2	330.6	121.4	121.3
July	355.7	354.0	304.9	304.6	332.1	331.5	121.7	121.8
August	356.8	355.3	305.6	305.7	333.0	332.8	122.1	122.2
September	357.7	356.5	306.3	306.6	333.9	331.4	122.5	122.6
October	359.1	358.0	307.1	307.9	335.8	335.0	122.9	123.1
November	360.5	359.6	308.2	309.2	337.7	335.9	123.3	123.5
December	361.9	360.8	309.3	310.1	339.6	337.2	123.7	123.9

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	118.9	118.9	106.6	106.8	112.1	112.1	127.6	127.6	115.3	114.9
August	119.4	119.4	107.5	107.5	112.6	112.6	128.2	128.2	115.6	115.0
September	119.6	120.1	107.8	107.7	112.8	113.2	128.5	129.0	115.8	115.1
October	120.1	120.7	107.7	107.5	113.3	113.6	129.0	129.7	116.0	114.9
November	120.7	121.0*	107.6	107.4*	113.7	114.0*	129.5	130.2*	116.3	115.9
December	121.0	121.3	107.6	107.7	114.1	114.2	130.1	130.5	116.6	115.8*
January 1988	121.4	121.7	108.0	108.0	114.4	114.4	130.6	131.0	116.8	116.2
February	121.7	122.0	108.2	108.2	114.6	114.5	131.0	131.4	117.0	116.5
March	122.1	122.2	108.4	108.4	114.6	114.7	131.4	131.8	117.2	116.9
April	122.5	122.6	108.5	108.5	115.0	115.0	131.9	132.3	117.5	117.2
May	122.9	122.9	108.7	108.7	115.4	115.3	132.5	132.7	117.8	117.5
June	123.3	123.3	108.9	108.9	115.8	115.6	133.1	133.1	118.2	117.9
July	123.7	123.8	109.2	109.2	116.0	116.0	133.5	133.6	118.3	118.2
August	124.1	124.2	109.4	109.4	116.3	116.4	133.9	134.2	118.4	118.4
September	124.5	124.6	109.7	109.4	116.6	116.8	134.3	134.7	118.4	118.5
October	125.0	125.1	109.9	110.0	117.1	117.2	134.9	135.3	118.8	118.7
November	125.5	125.6	110.0	110.2	117.7	117.7	135.5	135.8	119.2	118.9
December	125.9	126.0	109.9	110.4	118.4	118.1	136.1	136.3	119.6	119.2

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	-16.47	-16.48	191.4	191.6	4487	4488	3815	3816	-17.6	-17.6
August	-15.67	-15.68	192.6	192.8	4516	4524	3834	3840	-13.9	-19.1
September	-16.10	-14.08	192.0	193.1	4533	4559	3838	3857	-10.5	-18.8
October	-14.76	-17.63	189.7	193.5	4556	4586	3845	3864	-8.0	-15.4
November	-14.33	-15.11*	188.8	190.2	4578	4598	3854	3861	-7.6	-14.7
December	-13.91	-14.36	186.9	189.5*	4600	4621	3862	3873	-8.9	-13.8
January 1988	-13.73	-14.53	187.5	190.6	4615	4633	3859	3871	-8.5	-13.5
February	-13.87	-14.09	188.2	191.3	4629	4652	3854	3877	-7.8	-11.3
March	-14.02	-13.82	188.4	191.5	4644	4671	3851	3883	-9.3	-10.5
April	-13.73	-15.01	188.0	191.0	4665	4687	3859	3883	-6.5	-9.6
May	-13.46	-14.43	188.6	190.7	4688	4710	3868	3893	-6.1	-10.2
June	-13.15	-14.16	188.2	189.8	4712	4730	3881	3899	-7.2	-10.5
July	-15.32	-15.29	188.4	190.3	4731	4747	3887	3897	-7.4	-11.6
August	-14.42	-14.11	188.7	189.7	4754	4774	3894	3907	-7.5	-13.1
September	-12.61	-13.43	188.5	189.5	4778	4793	3900	3909	-7.9	-13.9
October	-12.95	-15.18	187.8	189.2	4790	4801	3897	3900	-15.6	-14.8
November	-13.43	-13.32	187.6	189.0	4798	4812	3891	3896	-19.7	-14.3
December	-13.26	-12.83	188.2	189.4	4800	4828	3880	3897	-23.6	-15.6

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	264.0	260.1	747.6	747.6	2848.4	2848.0	6.58	6.58	5.76	5.76
August	266.3	262.3	750.9	751.1	2860.1	2863.4	6.73	6.73	6.15	6.15
September	267.4	263.2	751.1	751.3	2874.6	2877.1	7.22	7.22	6.64	6.64
October	269.3	265.4	755.9	760.7	2893.8	2894.3	7.35	7.29	6.67	6.69
November	270.4	267.3	760.6	756.5	2912.7	2894.0	6.96	6.69	5.83	6.19
December	271.6	268.5*	765.3	753.2*	2931.5	2901.1*	6.84	6.75*	5.59	6.40*
January 1988	273.5	269.3	771.1	756.5	2953.6	2917.8	6.73	6.88	5.88	6.44
February	275.4	270.6	776.6	761.2	2974.1	2934.9	6.70	6.96	5.95	6.48
March	277.3	271.9	782.0	764.3	2994.7	2951.5	6.76	6.85	5.94	6.27
April	278.7	273.2	784.9	769.1	3015.3	2972.1	6.83	6.61	6.12	6.15
May	279.8	274.7	787.9	774.7	3026.9	2992.8	6.88	6.58	6.16	6.07
June	280.9	276.3	790.8	781.4	3038.4	3014.7	6.92	6.53	6.16	6.03
July	282.6	277.5	796.7	783.9	3059.2	3031.8	6.88	6.29	6.07	5.86
August	284.4	278.9	803.9	786.2	3080.0	3046.0	6.73	6.34	5.86	5.95
September	286.1	280.4	811.1	789.3	3100.9	3063.3	6.45	6.32	5.65	5.98
October	287.4	282.0	814.0	793.5	3115.6	3080.7	6.36	6.34	5.72	6.07
November	288.5	283.5	817.6	796.6	3130.3	3099.2	6.27	6.37	5.70	6.01
December	289.7	284.9	821.1	802.0	3145.0	3117.3	6.18	6.25	5.60	5.98

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1987	9.42	9.42	7.72	7.72	6.65	6.65	6.70	6.70	8.25	8.25
August	9.67	9.67	7.82	7.82	6.71	6.71	6.75	6.75	8.25	8.25
September	10.18	10.18	8.26	8.26	7.37	7.37	7.37	7.37	8.70	8.70
October	10.65	10.52	8.63	8.70	7.42	7.89	7.45	8.02	9.03	9.07
November	10.13	10.01	8.05	7.95	6.88	7.17	6.96	7.24	8.80	8.78
December	9.97	10.10*	7.83	8.04*	6.80	7.83*	6.86	7.73*	8.75	8.75*
January 1988	9.76	9.94	7.61	7.87	6.75	7.26	6.78	7.33	8.75	8.75
February	9.65	9.91	7.48	7.83	6.72	7.13	6.75	7.08	8.75	8.75
March	9.66	9.88	7.54	7.81	6.81	7.04	6.88	7.01	8.75	8.75
April	9.77	9.56	7.67	7.51	6.90	6.86	6.96	6.95	8.75	8.75
May	9.89	9.62	7.81	7.53	6.94	6.63	7.03	6.84	8.75	8.75
June	9.95	9.68	7.91	7.61	6.96	6.68	7.06	6.80	8.75	8.75
July	9.71	9.53	7.57	7.48	6.78	6.54	6.87	6.67	8.75	8.63
August	9.40	9.61	7.29	7.58	6.65	6.36	6.75	6.46	8.59	8.50
September	9.05	9.64	6.88	7.62	6.38	6.40	6.49	6.50	8.25	8.50
October	9.07	9.60	6.94	7.63	6.26	6.45	6.32	6.57	8.25	8.50
November	9.02	9.58	6.95	7.62	6.15	6.49	6.26	6.60	8.25	8.50
December	8.98	9.60	6.87	7.63	6.11	6.40	6.19	6.54	8.25	8.50

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.